

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 CEQ-01 SOE-02 DODE-00 EPA-01 IO-13 L-03

NSF-01 PM-05 OES-07 DOE-15 INT-05 PA-01 /147 W

-----060546 261923Z /72

R 261726Z APR 78

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 7245

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EO 11652 NA

TAGS EINV BR

SUBJECT: INVESTMENT PROBLEM IN BRAZIL: BRASKRAFT

REF: STATE 090962

1. SUMMARY. FOLLOWING MESSAGE REPORTS BACKGROUND OF PROBLEM WHICH HAS PLAGUED THE ESTABLISHMENT OF A LARGE-SCALE PULP AND PAPER MILL, BRASKRAFT, IN SAO PAULO STATE. CONTINENTAL GROUP SUBSIDIARY WOULD PROVIDE ABOUT ONE-THIRD OF EQUITY CAPITAL. CONGEN SAO PAULO ALSO ASSESSES BELOW THE POLITICAL RAMIFICATIONS WHICH HAVE ARISEN. FINAL PARAGRAPH IS EMBASSY REPORT ON FURTHER DELAY WHICH MAY BE EXPECTED NOW THAT PROJECT HAS BEEN LIKED TO ENVIRONMENTAL REVIEW OF RIVER ON WHICH PAPER MILL WOULD BE BUILT.  
END SUMMARY.

2. THE PROJECT IN QUESTION IS FOR A LARGE-SCALE INTEGRATED PULP AND PAPER MILL TO BE LOCATED IN A REFORESTED AREA IN SOUTHERN SAO PAULO STATE. THE COMPANY ORGANIZED TO CONSTRUCT AND OPERATE THE PROJECT IS BRASKRAFT S.A. FLORESTAL E INDUSTRIAL,  
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WHOSE \$60 MILLION EQUITY PARTICIPATION IS DIVIDED APPROXIMATELY EQUALLY BETWEEN CONTINENTAL CAN COMPANY, FIBASE (A SUBSIDIARY OF BNDE, THE BRAZILIAN NATIONAL DEVELOPMENT BANK) AND PLANTAR LTDA, A GROUP OF PRIVATE BRAZILIAN INVESTORS. IN ADDITION TO THE \$60 MILLION EQUITY, THE PROJECT WOULD BE FINANCED BY A \$100 MILLION BNDE LOAN, A \$40 MILLION LOAN FROM FINAME (ANOTHER BNDE SUBSIDIARY) AND THE REST IN FOREIGN LOANS. IT IS UNDERSTOOD THAT

THE ENTIRE PROJECT, INCLUDING THE OWNED FOREST AREAS, WILL REACH \$350 TO \$400 MILLION, WITH COSTS ESCALATING AS DELAYS CONTINUE.

2. IN MAY 1977 A GROUP OF LANDOWNERS IN THE AREA PROPOSED FOR THE BRASKRAFT MILL ORGANIZED A PUBLIC CAMPAIGN TO OPPOSE THE PROJECT, OSTENSIBLY ON ANTI-POLLUTION GROUNDS, BUT ALSO (A) BECAUSE OF THEIR CONCERN OVER THE EFFECT ON LOCAL WAGE LEVELS WHICH THE INTRODUCTION OF INDUSTRY INTO THE AREA WOULD HAVE AND (B) BECAUSE OF A DESIRE BY VARIOUS LOCAL LEADERS TO FURTHER THEIR POLITICAL AMBITIONS. THIS CAMPAIGN ENLISTED THE SUPPORT OF SEVERAL DOZEN MAYORS OF MUNICIPALITIES IN THE AREA

A SUBSTANTIAL NUMBER OF MEMBERS OF THE STATE LEGISLATURE, AND SEVERAL FEDERAL DEPUTIES. THREATS HAVE BEEN MADE THAT THE VOTERS OF THE AREA, WHO HAVE TRADITIONALLY BEEN STAUNCH SUPPORTERS OF THE GOVERNMENT PARTY, ARENA, WOULD DESERT TO THE OPPOSITION IF THE BRASKRAFT PROJECT WERE APPROVED. (MDB FEDERAL DEPUTY ISRAEL DIAS NOVAES HAS FAMILY IN THE AREA.)

5.

// 4. IN SEPTEMBER 1977 THE SAO PAULO STATE ENVIRONMENTAL CONTROL AGENCY, CETESB, REJECTED THE FIRST PLANS FOR THE PROJECT ON POLLUTION CONTROL GROUNDS. A SECOND PROJECT, INVOLVING STRENGTHENED ANTI-POLLUTION MEASURES, WAS ALSO REJECTED. THE COMPANY THEN SUBMITTED A THIRD PROJECT, WHICH CETESB IS UNDERSTOOD TO HAVE FOUND TECHNICALLY ADEQUATE, BASED ON THE ASSUMPTION THAT THE LIMITED OFFICIAL USE

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PARANAPANEMA RIVER WAS A CLASS TWO RIVER, I.E., SUITABLE AS A SOURCE OF DRINKING WATER WITH ONLY CONVENTIONAL PRIOR TREATMENT, BUT CETESB HAS NEVER ANNOUNCED PUBLICLY OR TOLD BRASKRAFT. A DECISION BY CETESB SHOULD HAVE BEEN FOLLOWED BY APPROVAL OF THE PROJECT BY THE GOVERNOR OF SAO PAULO, WHO HAD ASSURED THE CONSUL GENERAL THAT HE WOULD GIVE APPROVAL IF CETESB FOUND THE POLLUTION CONTROL MEASURES ADEQUATE.

IT WAS SUDDENLY FOUND, HOWEVER, THAT THERE HAD NEVER BEEN AN OFFICIAL DETERMINATION AS TO THE CLASSIFICATION OF THE PARANAPANEMA RIVER. THUS THE CASE HAD TO BE REFERRED TO THE MINISTRY OF INTERIOR IN BRASILIA FOR FINDING ON THIS POINT BY AN INTER-MINISTERIAL COMMITTEE, WHICH IS BEING CREATED TO REVIEW THE PROBLEM.

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
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R 261726Z APR 78  
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5. THOSE WHO HAVE SEEN THE PARANAPANEMA RIVER CONSIDER IT UNLIKELY THAT IT COULD BE DESIGNATED A CLASS ONE RIVER, I.E., SUITABLE AS A SOURCE OF DRINKING WATER WITHOUT ANY TREATMENT. THERE ARE LARGE RUNOFFS FROM AGRICULTURAL LAND CARRYING UNDETERMINED AMOUNT OF HERBICIDES AND PESTICIDES. IN FACT, HOWEVER, THE ISSUE IS NOT ENVIRONMENTAL, BUT POLITICAL. THE AUTHORITIES ARE BELIEVED TO HAVE BEEN UNABLE TO FIND TECHNICAL REASONS FOR DISAPPROVING THE PROJECT, AND ARE STALLING BECAUSE THEY ARE AWARE THAT APPROVAL WILL HAVE ADVERSE POLITICAL CONSEQUENCES FOR THE PRO-GOVERNMENT PARTY IN THE ENTIRE PARANAPANEMA VALLEY AREA, ESPECIALLY IN THE CONGRESSIONAL ELECTIONS OF NOVEMBER 1978.

6. THE CONTINENTAL GROUP IS LOSING MONEY ON THE LOANS IT HAS TAKEN DOWN AND IS CONCERNED BECAUSE ALL WORK AT THE MILL SITE CEASED PENDING A CETESB DECISION. CONTINENTAL'S RESIDENT VICE PRESIDENT THOUGHT THAT APPROVAL OF THE PROJECT MIGHT COME AFTER THE NEW GOVERNORS WERE SELECTED, BUT DURING CONTINENTAL PRESIDENT SMART'S END OF MARCH VISIT TO SAO PAULO THERE WAS SPECULATION THAT APPROVAL MIGHT NOT COME UNTIL AFTER THE NOVEMBER ELECTIONS, IF THEN.

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7. IN REGARD TO PGH 4 ABOVE, REPRESENTATIVES OF THE MINISTRIES OF INTERIOR AND OF MINES AND ENERGY TOLD EMBOFF ON APRIL 18 THAT THE BRASKRAFT PROJECT REMAINS IN SAO PAULO FOR STUDY BY CETESB AND HAS NOT YET BEEN PASSED TO THE MINISTRIES. THESE REPRESENTATIVES ALSO SAID THAT A COMMITTEE COMPOSED OF OFFICIALS OF THEIR MINISTRIES, AS WELL AS OF THE STATE GOVERNMENTS OF PARANA AND SAO PAULO, WILL MEET TO CLASSIFY THE PARANAPANEMA RIVER. THE DATE OF THE OPENING SESSION OF THE COMMITTEE IS NOT YET SET. THE REPRESENT-

SENTATIVES WOULD NOT COMMIT THEMSELVES ON THE ESTIMATED TIME IT  
WOULD TAKE TO CLASSIFY THE RIVER, POINTING OUT THAT THE COMMITTEE  
MIGHT DECIDE TO UNDERTAKE A DETAILED TECHNICAL INVESTIGATION WHICH  
COULD LAST UP TO SIX MONTHS AS IT HAD IN THE CASE OF OTHER RIVERS.  
EMBOFF WILL REMAIN IN CLOSE TOUCH WITH REPRESENTATIVES ON THE  
COMMITTEE IN BRASILIA TO OBTAIN FURTHER INFORMATION ON DEVELOP-  
MENTS.  
JOHNSON

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## Message Attributes

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